

MINUTES
Highway Expansion and Extension Loan Program

Advisory Committee Meeting
March 7, 2000

Committee Members Present:

Mary Peters
Cliff Potts
Bruce Hilby

Gary Magrino
Paul Schwartz

Members Absent: Jeff Martin

Others Present:

John McGee, ADOT
Shawn Dralle, ADOT
Bob Miller, ADOT
Tim Ahrens, ADOT
Anna-Marie Perry, ADOT

Vicki Tsutsumida, FHWA
Val Carrola, ADOT
Ellen Damron, ADOT
Evamae Nye, ADOT

Call to Order

The meeting was called to order by Chair Mary Peters at 1:05 p.m. A quorum was present.

Adoption of the Minutes of the February 1, 2000 meeting:

Ms. Peters called for approval of the minutes of the February 1, 2000 meeting. Mr. Schwartz moved for approval and Mr. Potts seconded the motion. Motion carried unanimously.

Staff Report

Ms. Dralle reported that arrangements have been made for the HELP Committee to hold their August meeting on August 17 in Payson, Arizona. The State Transportation Board has invited the Committee to join them for the Board meeting on Friday and related Board activities. Mr. Potts extended an invitation on behalf of the City of Payson to attend functions that the city has planned. Additional details will be provided at a later date.

Ms. Dralle discussed the City of Phoenix's application to complete the final section of on SR 51 to Loop 101. After ADOT's internal discussions and discussions with MAG, it was determined that the Union Hills portion is as accelerated as it can be, given the design schedule and construction timing. The request now is for funding to accelerate the Union Hills to Pima section. Therefore, the loan request from HELP will be approximately \$15 million instead of \$25 million. It is the understanding of ADOT that the proposal could be presented at the next MAG managers meeting.

Mr. Ahrens reviewed the HELP fund cash flow summary for the next eight years. Ms. Dralle noted that the assumptions could be changed on the MAG, or PAG or the statewide program.

Mr. McGee reported that for clarity purposes the capitalization of the fund was separated out on the spreadsheet from the operation of the fund to estimate the next fund balances. Loan repayment, interest on the loans, interest on repayments, interest on the investments, etc. will be reported.

Ms. Dralle briefed the Committee on the status of HB 2100. The bill amends the eligible project definition to remove the 50% requirement for the federal funds. The bill passed through the House, through the committees of the Senate and at the time of the meeting was waiting to be heard in the Rules Committee of the Senate. Ms. Dralle will keep the Committee informed if anything changes.

Fund balances and the potential for new loans were discussed. Mr. McGee explained that while balances are high, many assumptions are contained in the numbers and that outside events could affect the ability of the HELP fund to have these levels of funds available.

The distribution by region was discussed at length as to the projects proposed but not approved, those approved and the estimated remaining capacity, as demonstrated in graph form provided with the agenda.

Ms. Peters reminded the Committee that SB 1201 outlined exactly which projects are being advanced in MAG because of the Regional Freeway System. Ms. Peters stated that when the bill went through, the Department was not exactly sure which projects were going to be SIBs or GAN projects. The Life Cycle Program anticipates \$300 million of acceleration. \$126 million of that acceleration has been applied to specific projects. The remainder, \$174 million, is in the program for additional acceleration, but it has not been applied to specific projects within the program. It is accounted for within the overall Life Cycle Program as an amount available for acceleration, but unlike what Mr. Miller has done on the Statewide Program, where he has identified projects, the specific projects have not been identified on the Regional Freeway System.

Mr. Magrino stated that he would like to see the same “litmus test” done to all three categories. He stated that the bar graph was a good indication where the funds are. However, he stated that he was looking for the excess capacity. The graph shows no extra capacity for the state and PAG, whereas MAG according to the chart has a lot of remaining capacity. Mr. Magrino indicated that the statewide graph should not indicate the funds for proposed projects until they come through the Committee. He believes that the state is lagging far behind as opposed to their total capacity.

Ms. Peters asked Mr. Miller if he had checked with the COGs to be sure that the projects are in their transportation improvement plan. Mr. Miller assured Ms. Peters that the district engineers have contacted the COGs but have not at this time formally brought the projects before the various COGs or MPOs for approval. Mr. Miller distributed a list of potential statewide projects for acceleration.

Ms. Peters noted that both the PAG and MAG area are transportation management areas by federal definition and they are both required to have 20-year transportation plans. It was much easier for the PAG region to identify projects and work together with planning staff to put together a plan for projects for acceleration. She noted that there is less definition in the statewide area because many of those represented by their COG do not have the planning resources. The Department is working with them to try to bring those planning resources to them. Ms. Peters stated that Yuma Metropolitan Planning Organization (YMPO) and Flagstaff Metropolitan Planning Organization have the sophistication to put together a plan.

Ms. Peters stated trying to balance the rest of the state and develop a list of projects that are both eligible and ready to be accelerated and something that would actually gain from acceleration was more an iterative process than it was either in the MAG or PAG region. The Department had worked with a number of counties, a number of councils of government, district engineers and our statewide program to determine which projects were eligible and what gave true acceleration in terms of recommending a project. There is a little different process in each region.

Ms. Dralle noted that the handout of potential statewide projects indicates the county where the projects are located, showing that they are spread out over the state. It was reported that as these projects get advanced, the state program absorbs the interest cost. It is not shared with any of the local governments. If there is a project that happens to coincide with a local priority in the state program, HELP absorbs that cost because ADOT is advancing the project instead of the local community.

Ms. Dralle stated that this list of potential statewide projects gives staff the ability to look to the future to see if there is a chance of meeting the requirement of SB 1201.

Policy on Interest Rate Determination.

Ms. Dralle reviewed the guidelines for establishing loan interest rates. Background information was reported on the federal and state guidelines, and the balance of the document laid out the recent guidelines discussed at the previous HELP meeting. A lengthy discussion ensued on the interest subsidy.

Ms. Dralle stated that the guidelines start from the premise that both under federal guidelines and state statute, the concept is that the loans would be subsidized at an interest rate to make it attractive to local communities. Ms. Dralle reiterated that there is an interest cost on the BFO, but no cost from the other sources.

Mr. Potts stated that at the last meeting the question was brought up as to why would the Committee want to tie itself down to a specific policy. He believes it worthwhile to have some kind of presentation for the local governments so that they would have information if applying through this program. However, he expressed caution not to foreclose ability to make a small loan somewhere in the statewide's best interest.

Mr. Potts suggested that with \$132 million available to loan, if some money can be loaned out at net zero interest, getting the money out on the street to build highways would be a worthwhile loan rather than having the money sit in the bank.

Ms. Peters stated that the Committee should not limit itself. She emphasized that the Committee should strive for the optimum level but still maintain the cash level to be able to take advantage of the opportunity to advance other projects.

Responding to Ms. Ryall's questions regarding whether the subsidy will apply to the Regional Freeway System, Ms. Dralle stated that it depends on who requested the loan. If it were the big "picture" acceleration, it would be the Regional Area Road Fund (RARF) paying it. The subsidy will not apply because it is not a local community requesting the loan. Ms. Ryall stated that already there is a subsidization taking place on the project in the state system, with the state taking the cost out in the state programs and state initiated projects. The RARF system will be paying the interest for the acceleration for the Regional Freeway System instead of it coming out of the State Highway Fund. Ms. Ryall's emphasized that one has a separate funding source, whereas the MAG program (the ½ cent sales tax, a finite amount of money) unlike the State Highway Fund that takes care of everything else for projects.

John McGee reported that Eric Anderson's annual MAG report analyzed the impact of the accelerated program on what was previously contemplated. He found two issues: 1) By accelerating the program from 2014 to 2007, money is saved in inflationary costs, and 2) by applying this program over the program that was in place to do the non-accelerated program, because we are using monies and loaning monies to support that program that have shorter maturities than utilizing Highway User Revenue Fund (HURF) bonds that have longer maturities, it is estimated that the HELP program is saving approximately \$53 million in total interest cost over the life of the program. This is a lower cost financing program for the MAG Regional Freeway System.

Mr. McGee stated that when the subsidy was discussed, particularly on ADOT projects, it was noted that we are ADOT and also the custodians of the HELP fund. It was determined that it is more important to maintain a strong capitalization of the fund than it is for ADOT to have slightly reduced costs by giving a subsidization.

Ms. Peters stated that legislative intent was not to give ADOT an acceleration vehicle for our program. It was to create a vehicle by which the balance of the state could have an opportunity to come in and accelerate projects that otherwise they would not be able to do.

Ms. Peters recommended that there is a need to discuss "broad policy level objectives" that the Committee hopes to accomplish; and then figure what mechanisms in terms of interest rate calculation would help the Committee meet the objectives. Ms. Peters suggested that the Committee hold a study session in May in addition to the regular meeting to further discuss the issues. Staff will research the subject and report back to the Committee with information from other states that have the SIB program. In addition, Ms. Peters requested a review of the legislation to make sure that the Committee has all of the flexibility that is believed that they have.

Ms. Dralle stated that it would be her recommendation that the Committee not adopt a formal policy in the future.

Loan Repayment Agreement Approval

Two loan agreements were presented to the Committee for recommendation to the State Transportation Board for loan approval: Chino Valley (new traffic signal at intersection of Hwy 89 and Center Street) \$300,000 and City of Tucson (6th Avenue 19th Street to I-10) \$2,000,000. Ms. Dralle stated that based on the policy to date the interest rate will be set on March 16, the day prior to the State Transportation Board meeting on March 17, 2000.

It was reported that the two cities understand that the interest rate will be set at 90% of the Municipal Market Index. The rate of interest is about a percentage point lower than what Chino Valley could borrow. It is a small subsidy for Tucson, because they have an AA rating, but it is still lower than what they could do on their own.

Ms. Peters called for approval action to forward the two applications to the State Transportation Board with a weighted calculation on the date (March 16, 2000) before the State Transportation Board meeting on March 17.

Mr. Hilby moved that the Committee recommend to the State Transportation Board that they approve the two loans at a 10% subsidy or 90% of the AA rating. Gary Magrino seconded the motion. The Chair called for a vote, and motion passed unanimously.

Other

Discussion continued on the rate of interest to attract loan applications but also to maintain capitalization of the fund.

Ms. Peters reported that the State Transportation Board has three public hearings scheduled during the month of April and suggested that the Committee members may want to attend one of these hearings. With a study session and regular meeting in May, the meeting in April would be canceled. Ms. Peters requested that the Committee be given an update on the status of the two loans recommended to the Board.

The Committee will meet for a study session and Committee meeting Tuesday, May 2, at 1 p.m.

Meeting Adjourned at 3 p.m.